Wenzel
Downhole
Tools Ltd.

ANNUAL REPORT 2002

'Trendsetters in Downhole Drilling Solutions'

Corporate Profile

Wenzel Downhole Tools Ltd. designs and manufactures downhole drilling tools using leading-edge technology for the downhole oil and gas drilling industry, the utility trenchless underground construction industry, and the environmental industry. Wenzel's technology includes drilling motors, shock tools, and drilling jars. Wenzel's downhole motors have gained worldwide reputation as a provider of leading edge technology to the downhole drilling industry. Wenzel has pioneered and patented a number of new concepts in motor capabilities for a large number of drilling applications.

The Company is headquartered in Edmonton, Alberta and operates in Canada, the United States, and internationally through its subsidiary Wenzel Downhole International Inc. located in Barbados. The Company's common stock trades on the Toronto Stock Exchange under the symbol WZL.

The Company is organized to operate under one business unit with four operating departments - research and development, manufacturing, equipment sales, and equipment rentals. Research and development provides the catalyst for growth as the Company continues to successfully introduce product advancements which enable more effective and efficient drilling, particularly for the oil and gas industry.

Wenzel Downhole Tools Ltd. is committed to developing and providing value-added technologies to the drilling industry.

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Wenzel Downhole Tools Ltd. will be held in the Riverview Room of the International Hotel 220-4th Avenue SW, Calgary, Alberta on Wednesday, May 21, 2003 at 2:00 p.m.

2002 Highlights

- Refinancing of all existing debt on improved and favourable terms
- First major sale of tools to an International customer
- Termination of the verbal agreement with Zeal Inc. on favourable terms

Financial Highlights

As at December 31	2002	2001
(thousands of dollars except per share data)		
OPERATING RESULTS		
Revenues	**$ 28,040**	$ 31,573
Operating earnings (loss)	**1,327**	(3,755)
Net earnings (loss) for the year	**2,584**	(3,701)
Per share - net earnings (loss)	**0.09**	(0.12)
Cash provided by operations	**3,205**	2,833
FINANCIAL POSITION		
Working capital	**$ 5,866**	$ 308
Total assets	**53,936**	60,756
Shareholders' equity	**31,124**	28,417

SR MOTOR SWIVEL UNION
The stabilized omni directional swivel union has the strength and torsional stability to maintain a consistent tool face angle for exceptional directional control.

Report to Shareholders

New and improved motor technology together with stronger international sales have enabled the Company to buttress the overall decline in market activity.

BUSINESS GROWTH

During the past year, while the price of oil remained at relatively high levels, the overall activity in the oil and gas drilling sector declined by 13%. However, Wenzel through its program to focus on international sales, registered only a 11.2% decline from its previous year's level of revenues. The introduction of the Series 10 motor has further improved the Wenzel edge in drilling motors supplied to oil and gas industry. The popularity of this motor with drilling engineers together with improved international sales enabled the Company to cushion the reduction in revenues during the fiscal year ended December 31, 2002. The Company continues to strengthen its worldwide position through leading edge research and development, forging new alliances with other companies to broaden its distribution network.

Last year, the Company completed the streamlining of its business processes by consolidating three other small businesses that were purchased in previous years into the Wenzel framework. These new business segments which include screens and new motor technology have enabled the Company to broaden its product offering and add substantial strength to the Company's overall performance.

Management's commitment to research and development continues to pave the way for achieving significant internal growth as evidenced by continued and encouraging success of new tools in the beta testing stages. Based on reviews with customers who participated in the beta testing phase, management believes that these tests will result in full commercialization of at least one tool prior to the end of fiscal 2003.

The Company views its work with national oil companies in the international market as the prime source of expansion for its core business and as a means to counter the seasonal cyclical declines in the domestic oil and gas business cycle.

The Company aims to maintain its position as 'Trendsetters in Downhole Drilling Solutions.'

Thank you for your interest in the Company. At Wenzel, we are enthusiastic and optimistic about our future prospects. In particular, management wishes to express its appreciation to the shareholders for their investment, patience, and continuing confidence in the future of the Company.

Maurice Minvielle, President
March 27, 2003

Management's Discussion and Analysis

The Company has distinguished itself by providing reliable performance enhancing tools to both the oil and gas and underground construction industries.

This section should be read in conjunction with the audited financial statements for the year ended December 31, 2002.

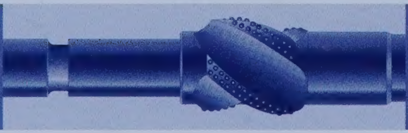
THE COMPANY

Origins

The Company was originally incorporated in June 1994 and changed its name to Master Downhole Canada Inc. in August 1994. In December 1996 the Company began trading on the Canadian Venture Exchange (formerly Alberta Stock Exchange) under the symbol 'MDH'. On February 25, 1998 the Company changed its name to Wenzel Downhole Tools Ltd. as part of a technology purchase and began trading under the symbol 'WZL'. The Company began trading on the TSX on January 10, 2000 and ceased trading on the Canadian Venture Exchange on January 25, 2000.

Vision and Direction

The Company was born out of a desire to improve the efficiency and effectiveness of down-hole drilling in the oil and gas industry, through improved penetration rates, longer lasting tools, and greater weight on bit than most other tools available. Through the research and development efforts which have enabled these cost saving features, the Company has distinguished itself by providing reliable performance enhancing tools to both the oil and gas and underground construction industries. Wenzel's patented sealed bearing assemblies increase the tool's longevity and overall performance.



SHOCK ABSORBED DRILLING MOTOR
A proven benefit of this motor is the prolonged life of the motor and drilling bit, as well as the increased penetration rate resulting from the shock tool.

International revenues increased by 309.3% and contributed more than 16% of the total gross profit for the year ended December 31, 2002.

While 2002 was a year of lower revenues for most companies in the oil and gas service-sector, Wenzel's strategy of developing new international relationships with national oil and gas companies in major oil and gas producing countries began to show results. International sales emerged as a major contributor during the first quarter of 2002 and as such the Company's total revenues for the year 2002 were only 11.2% lower than revenues for 2001. Management expects that this trend in international sales will continue and become more significant in overall Company performance.

Management's intent is enhancing the Company's presence in the downhole drilling market in Canada, the United States, and internationally by providing leading-edge performance drilling tools to the industry.

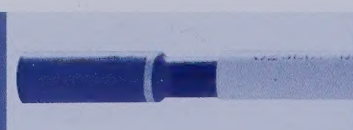
Products

Wenzel's core products are motors, jars, and shocks which are used extensively in down-hole drilling in the oil and gas and underground construction industries. These tools are usually rented to customers in Canada and the United States but sold to international customers. In addition, through acquisitions, the Company's product lines have expanded to include shaker screens for a percentage of solids fluid control in the oil, coal, salt, lime, sulphur and lumber industries; high energy plasma spray coating for any weldable or non-weldable materials for prolonging the life of critical machine parts; sound housings and electronic directional guidance systems for horizontal drilling.

FINANCIAL AND OPERATIONAL PERFORMANCE

Revenues

Total revenue for the year ended December 31, 2002 was 11.2% lower than the total revenue for the year ended December 31, 2001. Revenues in Canada and the United States declined by 40.3% and 53.1% respectively for the current year compared to last year.



WENZEL DRILLING JAR

Ideal for use in straight, directional or extended reach horizontal wells, the jar can be run in the lower BHA in compression or in the upper BHA in tension.

The Company successfully refinanced all existing debt in a fashion that more specifically matched the financing needs of the Company and on improved and favorable terms.

However, international revenues increased by 309.3% and contributed more than 16% of the total gross profit for the year ended December 31, 2002.

Net earnings as a percentage of revenues for the year ended December 31, 2002 was 9.2% compared to a net loss for the previous year. This improvement in earnings, despite the poorer economic conditions that existed throughout the year, is the result of a larger portion of revenues generated through international sales and better control of expenses. Gross margin for the year was 59.1% compared to 62.2% for the year ended December 31, 2001, mainly because of the large increase in the proportionate share of international sales in total revenue.

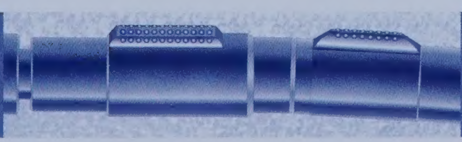
Direct Costs and Gross Profit

Direct costs for the year at $11,462,911 were 40.9% of sales compared to $11,941,940 (37.8% of sales) for the year ended December 31, 2001. This increase reflects the change in the revenue composition for sales of tools and rental of tools, as more than 62.0% of revenues consisted of sales compared to 58.0% for 2001. Based on current efforts with international oil and gas companies, management expects that the composition of sales and rentals in total sales will enable the Company to earn $1.00 in gross margin for every dollar of direct costs.

Expenses

General and administrative expenses were 38.6% of gross revenue compared to 49.6% for last year. This reduction is largely due to improved internal cost controls and improved performance on collections of receivables throughout the current year.

The decrease in interest expense on a comparable basis is directly related to the decrease in long-term debt and lower interest rates throughout the current year. In addition, the Company successfully refinanced all existing debt in a fashion that more specifically matched the financing needs of the Company and on improved and favorable terms.



SR MOTOR INTEGRAL KICK PAD

The integral kick pad coupled with the short bit to bend length accentuates the bend for consistent angle building.

Management believes that the Company's existing cash balances together with cash flow from operations will provide sufficient positive cash flow to proceed with the implementation of its short-term business plan.

The Company's research and development expenses decreased during 2002, largely because of management's decision to focus on the two tools that were closest to testing and commercialization. Therefore, much of the work performed during the year related to design improvements and testing for these tools.

Depreciation and amortization expenses have decreased because of the termination of the Zeal agreement, which caused the return of various assets as well as the removal of all goodwill recognized in the original transaction.

Income Taxes

International sales accounted for a significant portion of the Company's success in 2002 and this had the attendant impact of reducing the applicable taxes. While the Company expects the effective tax rate to continue to fluctuate based on the proportionate mix of sales and rentals in total revenues, management believes that as the current strategy of building international sales becomes more successful, the overall effective rate should be reduced.

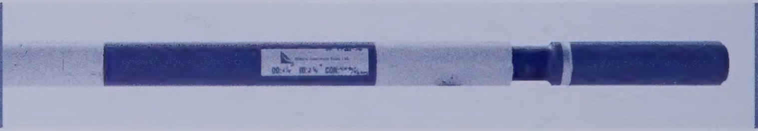
LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The working capital position of Wenzel at the end of fiscal 2002 was $5,865,678 compared to $307,622 at the end of the previous fiscal year. The current ratio has improved to 1.55:1.

The Company has a revolving credit facility of $8.5 million of which $2,772,077 was used at 2002 year-end. In addition, the Company has an Evergreen revolving line of credit for building new tools to add to its rental fleet.

Management believes that the Company's existing cash balances together with cash flow from operations will provide sufficient positive cash flow to proceed with the implementation of its short-term business plan.



WENZEL SHOCK TOOL

Reduces bit bounce and enhances bit life, thereby reducing fatigue on drilling string and bit. The springs always take the shock load regardless of compression or tension.

Ongoing research and product development efforts have resulted in two exciting new technologies in beta test mode at sites in Canada and the United States.

Capital Assets

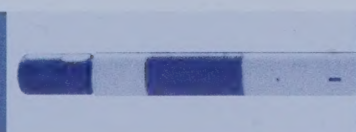
Although plant and equipment net of depreciation declined because of the termination agreement with Zeal that required the return of certain assets, the Company has continued to build tools to increase the capacity of the rental fleet in an effort to expand its presence in the rental market in Canada and the United States.

RISKS, UNCERTAINTIES AND BUSINESS OUTLOOK

Wenzel is a relatively small company operating in the downhole-drilling sector of the oil and gas industry. This sector is very competitive and is dominated by large multinational companies with larger financial, technical and engineering resources. The Company is heavily dependent on the general level of activity in downhole oil and gas drilling in Canada, the US, and internationally. The level of that activity fluctuates widely according to economic and climatic factors that are beyond the control of Wenzel's management.

During 2002, the Company completed and shipped a number of large foreign orders that boosted its operating performance for the year. The Company's ongoing research and product development efforts have resulted in two exciting new technologies in beta test mode at sites in Canada and the United States. The results of these tests to date, have led management to the conclusion that each of these technologies will lead to significant improvements in drilling technologies and will make significant contributions to the overall value of the Company. These new technologies are expected to help Wenzel increase its market penetration for drilling tools as well as opening new markets where the Company's technologies are not currently in use.

Attendance at Global Petroleum Shows in strategic locations throughout the world has enabled the Wenzel name to attract more interest from several major oil producing countries. As the Company continues to explore these opportunities, new strategic relationships are formed which will help entrench the Wenzel motor as the motor of choice for cost effective and efficient performance in downhole drilling applications.



WENZEL DRILLING MOTOR

The three radial bearing supported motor increases the rate of penetration while drilling which results in the reduction of the overall drilling cost.

Management's Report

The accompanying financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. In the opinion of management, the financial statements have been prepared with acceptable limits of materiality and, when necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the balance sheet date. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the consolidated financial statements. Financial information contained elsewhere in the annual report has been prepared and reviewed by management to ensure it is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are protected and financial records are properly maintained to provide reasonable assurance that financial information is relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfills it's responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements principally through its audit committee.

The Board of Directors appoints the Audit Committee. The Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities and to review the financial statements and the external auditor's report.

Grant Thornton LLP, an independent firm of Chartered Accountants, has been engaged as approved by a vote of shareholders at the company's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards and provide an independent professional opinion.

Harvie Andre
Chairman of the Board

Maurice Minvielle
President

March 27, 2003

Auditors' Report

To the Shareholders of Wenzel Downhole Tools Ltd.

We have audited the consolidated balance sheets of Wenzel Downhole Tools Ltd. as at December 31, 2002 and 2001 and the consolidated statements of operations, retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants

Calgary, Canada
February 21, 2003

Consolidated Statements of Operations

Years ended December 31	2002	2001
		(Restated Note 3)
Revenue	**$ 28,039,664**	$ 31,572,657
Direct costs	**11,462,911**	11,941,940
Gross profit 59.1% (2001 - 62.2%)	**16,576,753**	19,630,717
Expenses		
General and administrative	**10,829,686**	15,649,468
Depreciation and amortization	**3,502,546**	5,061,420
Interest on long term debt	**457,755**	1,099,720
Product development	**459,286**	1,575,570
	15,249,273	23,386,178
Operating earnings (loss) before other item and income taxes	**1,327,480**	(3,755,461)
Other item		
Loss on disposal of capital assets	**79,015**	264,284
Operating earnings (loss) before income taxes	**1,248,465**	(4,019,745)
Provision for income taxes (recovered) (Note 11)		
Current	**(604,404)**	(1,539,810)
Future	**(730,971)**	1,221,561
	(1,335,375)	(318,249)
Net earnings (loss)	**$ 2,583,840**	$ (3,701,496)
Earnings (loss) per share		
Basic	**$ 0.085**	$ (0.124)
Diluted	**$ 0.085**	$ (0.123)
Weighted average number of shares		
Basic	**30,410,253**	29,857,866
Diluted	**30,502,503**	30,047,116

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31	2002	2001
		(Restated Note 3)
Retained earnings, beginning of year as reported	**$ 12,883,594**	$ 16,445,780
Cumulative effect of error adjustment (Note 3)	**–**	139,310
Cumulative translation adjustment (Note 3)	**373,064**	373,064
Retained earnings, beginning of year as restated	**13,256,658**	16,958,154
Net earnings (loss)	**2,583,840**	(3,701,496)
Retained earnings, end of year	**$ 15,840,498**	$ 13,256,658

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31	2002	2001
		(Restated Note 3)
Assets		
Current		
Cash and cash equivalents	$ 767,121	$ 1,178,472
Receivables	6,229,245	6,793,543
Income taxes recoverable	1,675,658	1,697,804
Inventory (Note 5)	7,436,614	9,602,922
Prepaids	366,763	443,720
	16,475,401	19,716,461
Capital assets (Note 6)	27,419,348	29,321,820
Intangibles (Note 7)	10,041,006	11,718,149
	$ 53,935,755	$ 60,756,430
Liabilities		
Current		
Bank indebtedness (Note 8)	$ 2,772,077	$ 8,759,921
Payables and accruals	3,556,183	5,903,708
Current portion of deferred revenue	1,448,131	842,735
Current portion of long term debt	2,833,332	3,902,475
	10,609,723	19,408,839
Long term deferred revenue	1,096,923	1,264,254
Long term debt (Note 9)	5,194,446	4,666,404
Future income taxes (Note 11)	5,911,065	7,000,175
	22,812,157	32,339,672
Shareholders' Equity		
Capital stock (Note 10)	15,283,100	15,160,100
Retained earnings	15,840,498	13,256,658
	31,123,598	28,416,758
	$ 53,935,755	$ 60,756,430

Commitments and contingencies (Note 13)

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Harvie Andre

Chairman of the Board, Director

Maurice Minvielle

President, Director

Consolidated Statements of Cash Flows

Years Ended December 31	2002	2001
		(Restated Note 3)
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings (loss)	**$ 2,583,840**	$ (3,701,496)
Adjustments to reconcile net earnings (loss) to net cash from operations:		
Depreciation and amortization	**3,502,546**	5,061,420
Loss on sale of capital assets	**79,015**	264,284
Deferred revenue	**(1,433,114)**	(168,782)
Future income taxes	**(730,971)**	1,221,561
Agreement termination (Note 18a)	**(781,954)**	-
Non-cash services rendered	**123,000**	-
Translation adjustment	**(137,585)**	155,537
	3,204,777	2,832,524
Change in non-cash operating working capital (Note 12)	**4,184,335**	3,431,134
	7,389,112	6,263,658
Financing		
Revolving bank indebtedness	**(5,987,844)**	2,913,120
Proceeds from long term debt	**8,500,000**	604,980
Repayment of long term debt	**(8,923,649)**	(4,376,882)
Issuance of capital stock	**-**	30,000
	(6,411,493)	(828,782)
Investing		
Proceeds from sale of capital assets	**2,231,205**	885,081
Purchase of capital assets	**(3,036,985)**	(5,269,463)
Purchase of patent rights	**(583,190)**	(1,309,357)
	(1,388,970)	(5,693,739)
Net decrease in cash and cash equivalents	**(411,351)**	(258,863)
Cash and cash equivalents		
Beginning of year	**1,178,472**	1,437,335
End of year	**$ 767,121**	$ 1,178,472

Supplemental cash flow information (Note 12)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2002

1. NATURE OF OPERATIONS

The Company is engaged in the design, manufacture, sale and rental of downhole drilling tools, primarily to the Canadian and international oil and gas, utility and construction industries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company were prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less at the time of purchase. Bank borrowings are considered to be financing activities.

Inventory

Inventory is comprised of raw materials, work in progress and finished goods. Raw materials are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost. Work in progress and finished goods are valued at the lower of cost and net realizable value, determined on an average cost basis.

Capital assets

Capital assets are recorded at historical cost and amortized over their estimated useful lives.

Buildings	20 years, straight-line
Oilfield tools	10 years, straight-line
Machinery and shop equipment	15 years, straight-line
Office equipment	20% declining balance
Leasehold improvements	straight line over the term of the lease

Intangibles

Effective January 1, 2002, the Company adopted new accounting standards for goodwill and other intangibles assets. Under the new standards of accounting for goodwill, goodwill is no longer amortized, but is tested for impairment annually or more frequently if events or circumstances indicate the assets might be impaired. Impairment losses are recognized in current period earnings. On December 31, 2002, the Company performed an impairment test on goodwill in accordance with the new accounting standards.

Patents are being amortized on straight-line basis over the life of the patents.

Revenue recognition

The Company recognizes sales revenue at the time of shipment of product except for sale-leaseback transactions. Under sale-leaseback transactions, the profits are deferred and recognized as income on a straight-line basis over the term of the lease. Rental and service revenue is recognized in the period the tools are used by customers based on short-term rental agreements.

Product development

The Company invests considerable resources in the development of improved and new products. These expenditures qualify for Investment Tax Credits, which are applied directly against product development costs.

Income taxes

Income taxes are accounted for using the liability method of income tax allocation whereby temporary differences between the tax bases of the Company's assets and liabilities and their carrying amounts result in future income tax assets and liabilities. Future income taxes are measured using substantially enacted income tax rates that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized. Temporary differences arising on acquisitions result in future income tax assets or liabilities.

Foreign currency translation

The Company translates foreign currency denominated transactions and the financial statements of operationally dependent foreign operations using the temporal method. Monetary assets and liabilities are translated at year-end rates. Non-monetary assets and liabilities are translated at rates in effect on the date of the transactions. Income and expenses are translated at average rates in effect during the year with the exception of amortization, which is translated at historic rates. Realized and unrealized (losses)/gains of ($137,585) in 2002 (2001 - $155,536) arising from these translations are included in general and administrative expenses in the consolidated statements of operations.

Fair value

The fair value of the current financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgement. Changes in assumptions could significantly affect these estimates.

The fair value of the Company's long term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same duration to maturity. The fair values of other financial instruments held by the Company are estimated primarily by discounting future cash flows using current rates for similar financial instruments under similar credit risk and maturity conditions.

Credit risk

The Company grants credit to its customers, which operate primarily in the oil and gas industry. Periodic credit evaluations of customers' financial conditions are performed and general collateral is not required, but letters of credit may be required for international sales. Reserves are maintained for potential credit losses.

Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that the bank loans are at a floating rate of interest. It is management's opinion that the Company is not exposed to significant interest rate risk.

Foreign currency

The Company operates primarily in Canadian and United States dollars. Its foreign exchange risk arises from the risk of fluctuation in exchange rates and the degree of volatility of these rates. It is management's opinion that the Company is not exposed to significant foreign currency risk.

Stock option plan

The Company has a stock-based compensation plan, which is described in Note 10. The Company follows the intrinsic value based method of accounting for such awards; consequently, no compensation expense was recognized for stock options as the exercise price was set at the market price on the issue date of the awards. Consideration received by the Company on the exercise of stock options was credited to share capital.

3. CORRECTION OF ERRORS IN PRIOR PERIOD FINANCIAL STATEMENTS

a) Sale-leaseback transactions

In 2001, the Company corrected an error in the reporting of profits on sale-leaseback transactions. Under sale-lease back transactions, equipment is sold to leasing companies and immediately leased back under various operating leases. The entire profit on the sale was recognized when the sale occurred to the leasing companies, which was incorrect.

The profits are now being deferred and recognized as income on a straight-line basis over the term of the leases. This correction has been applied retroactively with the restatement of prior period figure. The restatement reported in the 2001 Notes to the Consolidated Financial Statements was incomplete as not all the leases were included in the calculations. The effects of these changes on the statement of operations and retained earnings and balance sheet were as follows:

Increase (decrease)	2002	2001
Revenues	**$ 1,141,000**	$ 168,781
Future taxes	**410,760**	67,344
Earnings for the year	**730,240**	101,437
Deficit, beginning	**(1,150,211)**	(1,251,648)
Retained earnings (deficit), ending	**$ 419,971**	$ (1,150,211)
Earnings per share	**$ .024**	$ 0.003
Deferred revenue	**$ (1,141,000)**	$ 2,106,694
Future taxes	**513,450**	(956,731)
Retained earnings	**$ 627,550**	$ 1,149,963

b) Foreign operations

Prior to 2002 the subsidiaries of the Company in Barbados and Texas were accounted for as self-sustaining foreign operations. Cumulative gains and losses arising from the translation of the assets and liabilities of these operations were recorded as a separate component of shareholders' equity. This was an error as the subsidiaries are dependent foreign operations and should be accounted for using the temporal method. This correction will result in the cumulative translation adjustment being eliminated and any translation of assets and liabilities of these operations being charged directly to the statement of operations. The effects of these changes on the statement of operations and retained earnings and balance sheet were as follows:

Increase (decrease)	2002	2001
Cumulative translation adjustment	**$ 4,605**	$ 373,064
Retained earnings	**$ 4,605**	$ 373,064

4. ACQUISITIONS

On October 25, 2001, the Company acquired 100% of the outstanding common shares of CN & LT Consulting Ltd., a company previously owned by two employees of the Company.

The aggregate purchase price was $740,000, including $100,000 of cash and common stock valued at $640,000. The fair market value of the patent approximated the purchase price.

The sole asset of CN & LT Consulting Ltd. relates to a patent for oilfield equipment. CN & LT Consulting Ltd. was dissolved on November 26, 2002 after transferring its assets and liabilities to Wenzel Downhole Tools Ltd.

5. INVENTORY

The breakdown of the inventories is as follows:

	2002	2001
Raw materials	**$ 380,487**	$ 759,221
Work in progress	**976,038**	2,027,364
Finished goods	**6,080,089**	6,816,337
	$ 7,436,614	$ 9,602,922

6. CAPITAL ASSETS

December 31, 2002	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Oilfield tools	**$ 36,906,707**	**$ 12,174,104**	**$ 24,732,603**
Machinery and shop equipment	**3,639,646**	**1,331,516**	**2,308,130**
Office equipment and fixtures	**752,361**	**449,818**	**302,543**
Leasehold improvements	**108,530**	**32,458**	**76,072**
	$ 41,407,244	**$ 13,987,896**	**$ 27,419,348**

December 31, 2001	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	$ 279,622	$ 12,862	$ 266,760
Oilfield tools	34,892,627	8,751,413	26,141,214
Machinery and shop equipment	3,418,626	1,022,215	2,396,411
Office equipment and fixtures	842,191	411,681	430,510
Leasehold improvements	108,530	21,605	86,925
	$ 39,541,596	$ 10,219,776	$ 29,321,820

7. INTANGIBLES

	2002	2001
Patent rights	**$ 9,610,793**	$ 9,403,965
Goodwill	**430,213**	2,314,184
	$ 10,041,006	$ 11,718,149

Patent rights

In 1998, the Company acquired the patent rights to certain downhole motors, short radius motors, shock tools and other related equipment for the purchase price of $3,600,000 plus an amount equal to 4% of the gross sales, rentals and internal usage of any apparatus based on the proprietary interest acquired until 2012. As consideration, the Company issued the vendor 2,900,000 common shares at a price of $0.40 per share and 6,100,000 preferred shares at a price of $0.40 per share. Any amounts due as a result of the purchase price adjustment are to be paid the month following the month of the sale or rental.

As at December 31, 2002, included in payables and accruals is the amount of $1,347,665 (2001 - $1,595,028) owing to the vendor for the 4% fee.

December 31, 2002	**Cost**	**Accumulated Amortization**	**Net Book Value**
Patent rights	**$ 11,975,876**	**$ 2,365,083**	**$ 9,610,793**

December 31, 2001	Cost	Accumulated Amortization	Net Book Value
Patent rights	$ 11,392,686	$ 1,988,721	$ 9,403,965

Goodwill

The new CICA standard dealing with accounting for goodwill and other intangible assets eliminates the amortization of goodwill. The standard does not permit retroactive application. On a pro forma basis, the impact of adopting the new goodwill accounting standard on prior period earnings is:

	2002	2001
Reported net earnings (loss)	**$ 2,583,840**	$ (3,701,496)
Add: goodwill amortization	–	683,146
Adjusted net earnings (loss)	**$ 2,583,840**	$ (3,018,350)
Earnings per share		
Reported basic and diluted	**$ 0.085**	$ (0.124)
Add: goodwill amortization	–	0.023
Adjusted basic and diluted	**$ 0.085**	$ (0.101)

8. BANK INDEBTEDNESS

A new operating loan with a chartered bank was entered into during the year. The new operating loan is due on demand, has a maximum limit of $8,500,000 of which $4,777,713 remains unused at December 31, 2002, bears interest at the bank's prime plus 1% calculated and payable monthly. The collateral security lodged by the Company to support the new operating loan is the same as that disclosed in Note 9.

In the previous year, the operating loan was held at a different chartered bank up to a maximum of $10,900,000, of which $8,404,000 was used at December 31, 2001. The collateral security lodged by the Company to support that operating loan was an assignment of receivables and a general security agreement.

Included in general and administrative expenses is interest expense relating to the bank indebtedness of $144,383 (2001 - $153,976).

9. LONG TERM DEBT

	2002	2001
Demand non-revolving loan, bearing interest at HSBC Bank Canada prime rate plus 1.25%, repayable in monthly principal payments of $236,111 plus interest.	**$ 8,027,778**	$ –
Non-revolving demand term loans, bearing interest at Bank of Montreal prime rate plus 1.5%, due on various dates to December, 2005, repayable in monthly instalments of $322,968 plus interest. The collateral security lodged by the Company is a first charge on all assets of the Company.	**–**	8,460,439
Term loan, bearing interest at 10% per annum, repayable in blended monthly payments of $3,025. The collateral security lodged by the Company is a mortgage against the Texas property. The carrying value of the property was $266,760 in 2001	**–**	180,440
	8,027,778	8,568,879
Less current portion	**(2,833,332)**	(3,902,475)
	$ 5,194,446	$ 4,666,404

Additional new credit facilities held at HSBC Bank Canada which were not drawn upon at December 31, 2002 are as follows:

a) $4,000,000 CDN - demand revolving loan to finance future capital asset acquisitions;
b) $3,000,000 CDN - demand revolving loan to finance work in progress for international contracts;
c) $2,000,000 CDN - foreign exchange contracts; and
d) $100,000 CDN - MasterCard limit.

The collateral security lodged by the Company to support the HSBC demand loan and operating loan is as follows:

a) loan agreement;
b) general assignment of book debts;
c) general security agreement over all present and after acquired personal property;
d) unlimited guarantee and postponement of claim from Wenzel Downhole Tools, US Inc. and Wenzel Downhole International Inc.(Barbados), companies related through common control, supported by general security agreements where appropriate;
e) assignment of all risk insurance over all assets the Company;
f) assignment of all risk marine cargo insurance;
g) assignment of accounts receivable insurance;
h) assignment of Canadian Commercial Corporation insurance;
i) Foreign Exchange Contract Agreement;
j) Banker's Acceptances Agreement; and
k) Promissory notes advanced under the Credit Facilities.

Principal repayments for the next three years are summarized as follows:

2003	$ 2,833,332
2004	2,833,332
2005	2,361,114

10. CAPITAL STOCK

Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

Of the preferred shares authorized, 6,100,000 has been designated Series 1 preferred shares which are non-voting, non-redeemable, non-cumulative or retractable and convertible into common shares under certain conditions on the basis of 1 common share for each preferred share.

Issued:

i) Common shares

	December 31, 2002		December 31, 2001	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**30,397,924**	**$ 13,320,100**	29,497,924	$ 12,650,100
Issued on exercise of options	**–**	**–**	100,000	30,000
Issued for services rendered	**300,000**	**123,000**	–	–
Issued on company acquisition	**–**	**–**	800,000	640,000
Balance, end of year	**30,697,924**	**$ 13,443,100**	30,397,924	$ 13,320,100

ii) Preferred shares

	December 31, 2002		December 31, 2001	
	Number of Shares	**Amount**	Number of Shares	Amount
	4,600,000	**$ 1,840,000**	4,600,000	$ 1,840,000
		$ 15,283,100		$ 15,160,100

During 2002, the Company issued 300,000 common shares at a price of $0.41 per share to the Company's president for past services. The total amount of $123,000 was charged to the statement of operations as a salary expense.

Stock options

Effective January 1, 2002, the Company prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting for stock-based compensation and other stock-based payments.

The Company provided compensation to a certain employee in the form of stock options. The Company followed the intrinsic value based method of accounting for such awards; consequently, no compensation expense was recognized for stock options as the exercise price was set at the market price on the issue date of the awards.

When the options were exercised, the proceeds received were recorded as share capital. If the Company had adopted the fair value based method of accounting for its stock option plan, the effect on compensation expense would have been immaterial with no effect on earnings per share.

The approved stock option plan grants options to the employees, directors and consultants of the Company. The Board of Directors administers the stock option plan. The term of the option and vesting provisions are determined at the time of grant and may vary between individual grants of options however, the terms of an option shall not be more than five years from the date of grant. The number of common shares subject to options shall not exceed 10% of the issued and outstanding common shares of the Company.

The details on the stock options at December 31, 2002 are as follows:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 2000	760,000	$ 0.30 - $2.00	$ 1.49
Granted	100,000	0.97	0.97
Exercised	(100,000)	0.30	0.30
Cancelled or expired	(225,000)	1.00 - 2.00	1.56
Outstanding at December 31, 2001	535,000	0.97 - 2.00	1.58
Granted	225,000	0.41	0.41
Outstanding at December 31, 2002	**760,000**	**$ 0.41 - $2.00**	**$ 1.30**
Options, exercisable at December 31, 2002	**722,500**	**$ 0.41 - $2.00**	**$ 1.32**

Options outstanding at December 31, 2002 are as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Contractual Life (Years)
June 6, 2004	160,000	160,000	$ 1.25	1.43
January 11, 2004	50,000	50,000	2.00	1.03
January 1, 2005	25,000	25,000	2.00	2.00
September 12, 2005	250,000	250,000	2.00	2.70
November 29, 2005	50,000	12,500	0.97	2.91
November 5, 2007	225,000	225,000	0.41	4.83

Special warrants and warrants

As at December 31, 2002 there are nil (2001 - 1,285,900) warrants outstanding. Each full warrant entitled the holder to purchase one common share of the Company at a price of $2 per share until October 28, 2002. No warrants were converted in 2002.

11. INCOME TAXES

The tax effect of these losses and other temporary differences that give rise to the future income tax liability are as follows:

	2002	2001
Deferred revenue	**$ 107,641**	$ 351,653
Other deductions	**916,219**	429,195
Capital assets	**(3,483,782)**	(4,404,338)
Intangibles	**(3,451,143)**	(3,376,685)
Net future tax liability	**$ (5,911,065)**	$ (7,000,175)

Income tax expense (recovery) differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective periods' loss before income taxes.

These differences result from the following items:

	2002	2001
Expected income tax at 36% (2001 - 36%)	**$ 449,447**	$ (1,447,108)
Increase (decrease) resulting from:		
Difference between statutory rates in Canada and rates applicable to the foreign subsidiaries	**(639,940)**	918,534
Amortization of goodwill	**–**	47,426
Other	**(1,144,882)**	162,899
	$ (1,335,375)	$ (318,249)
Current (recovery)	**$ (604,404)**	$ (1,539,758)
Future	**(730,971)**	1,221,509
	$ (1,335,375)	$ (318,249)

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2002	2001
Change in non-cash operating working capital		
Receivables	**$ 564,298**	$ 5,046,358
Income taxes recoverable	**22,146**	(1,151,479)
Inventory	**2,166,308**	(4,037,004)
Prepaids	**76,957**	1,013,531
Payables and accruals	**1,354,626**	2,559,728
	$ 4,184,335	$ 3,431,134
Interest paid	**$ 698,139**	$ 1,205,569
Income taxes recovered	**$ (516,380)**	$ (388,331)
Non-cash issuance of shares on purchase of patent	**$ –**	$ 640,000
Non-cash agreement termination (Note 18a)	**$ 3,702,151**	$ –

13. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company leases certain equipment under operating leases. The annual lease payments are as follows:

2003	$ 3,962,109
2004	2,750,897
2005	708,622
2006	524,578

Contingencies

The Company is involved in various legal actions, which have occurred in the ordinary course of business. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion that losses, if any, arising from such legal actions are either provided for through insurance or would not have a material effect on the Company's consolidated financial position.

14. EARNINGS PER SHARE

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury method only "in the money" dilutive instruments impact the dilutive calculations. The Company adopted this standard in 2001.

Per share amounts have been computed using the weighted average number of shares outstanding for the year.

A reconciliation of the denominators for the earnings per share calculation is outlined below:

	2002	2001
Basic weighted average shares	**30,410,253**	29,857,866
Effect of dilutive options	**92,250**	189,250
Diluted weighted average shares	**30,502,503**	30,047,116

15. RELATED PARTY TRANSACTIONS

During the year, the Company paid $nil (2001 - $189,057) to an employee through his ownership in a company for the purchase of patents. For additional information on patents, see Note 7.

The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

16. SEGMENTED INFORMATION

Geographic information

The following table provides information about the geographic segments:

	2002	2001
Revenue		
Canada	**$ 12,259,131**	$ 20,523,745
United States	**3,808,093**	8,124,067
International	**11,972,440**	2,924,845
	$ 28,039,664	$ 31,572,657
Capital assets and goodwill		
Canada	**$ 27,731,455**	$ 29,404,843
United States	**110,918**	2,228,606
International	**7,187**	2,555
	$ 27,849,560	$ 31,636,004

The Company is viewed as a single business segment involving oilfield tool manufacture, sale and rental for purposes of internal performance measurement and resource allocation by the Company's chief operating decision maker. All revenues are derived from this product group.

17. COMPARATIVE FIGURES

Certain of the comparative year's figures have been reclassified to conform to the current year's presentation.

18. SUBSEQUENT EVENT

a) Effective December 31, 2002, 376348 Alberta Ltd. and the Company have agreed to terminate the verbal agreements with Zeal Inc. entered into in October 1999 and December 2000. Under these agreements Zeal Inc. was to provide property, buildings, service equipment and rental tools in exchange for 5% of the gross revenues of the Texas operations to a maximum of $3,000,000 USD with a minimum monthly payment of $15,000 USD. Under the Termination Agreement, 376348 Alberta Ltd. will take back the property and building including the mortgage on the property and agrees to hold whole Wenzel Downhole Tools Ltd. and Wenzel Downhole Tools US Inc. on all expenses relating to Texas property such as property taxes, mortgage payments and depreciation from the time of the original transaction. In addition, the Company retains all income and expenses of the operations as well as the Texas operations. 376348 Alberta Ltd. will reimburse Wenzel Downhole Tools US Inc. for costs associated with goodwill related to the original transaction. All accounts payable or other amounts due to Zeal Inc. will be forfeited.

b) Subsequent to year end, the Company granted an employee stock options to purchase up to 75,000 shares at an exercise price of $0.72 per share. These options expire on January 2, 2008. The exercise price of the options approximated the market price on the date of issuance.

Selected Quarterly Information

Year Ended December 31, 2002 (restated)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Year**
Revenues	**$ 11,996,437**	**$ 3,668,961**	**$ 6,126,097**	**$ 6,248,169**	**$ 28,039,664**
Operating earnings (loss)	**3,259,894**	**(2,209,855)**	**1,307,900**	**(1,030,459)**	**1,327,480**
Net earnings (loss)	**2,383,574**	**(1,324,743)**	**773,706**	**751,303**	**2,583,840**
Cash provided by (used by) operations	**$ 3,504,147**	**$ 191,071**	**$ 2,008,387**	**$ (1,547,760)**	**$ 4,155,845**
Weighted average number of shares outstanding (fully diluted)	**29,857,866**	**30,397,924**	**30,397,924**	**30,502,503**	**30,502,503**
Net earnings (loss) per share	**$ 0.080**	**$ (0.044)**	**$ 0.025**	**$ 0.025**	**$ 0.085**

Year Ended December 31, 2001 (restated)	March 31	June 30	Sept. 30	Dec. 31	Year
Revenues	$ 8,901,620	$ 8,462,849	$ 6,421,129	$ 7,155,168	$ 30,940,766
Operating earnings (loss)	1,535,851	983,417	(601,965)	(5,672,764)	(3,755,461)
Net earnings (loss)	1,045,411	422,177	334,278	(5,503,362)	(3,701,496)
Cash provided by (used by) operations	$ 1,950,072	$ 1,674,021	$ 1,490,715	$ (2,282,284)	$ 2,832,524
Weighted average number of shares outstanding (fully diluted)	31,282,680	29,672,520	29,638,081	30,047,116	30,047,116
Net earnings (loss) per share	$ 0.033	$ 0.014	$ 0.011	$ (0.183)	$ (0.123)

Corporate Information

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President, Crestvard Corp.

Henry Boychuk
Chief Executive Officer
Wenzel Downhole Tools Ltd.

Peter Lylick*
Director
Hyduke Resource Capital Inc.

Maurice Minvielle*
President
Wenzel Downhole Tools Ltd.

William Wenzel
Employee
Wenzel Downhole Tools Ltd.

*member of audit committee

Chairman of the Board
Harvie Andre

Officers
Henry Boychuk
Chief Executive Officer

Maurice Minvielle
President

John Adkins
Chief Financial Officer

Greg Petersen
Secretary

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HSBC
Calgary, Alberta

Registrar and Transfer Agent
Computershare Trust
Company of Canada
Calgary, Alberta

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Stock Exchange Listing
The Toronto Stock Exchange
Stock Symbol: **WZL**

WZL